

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ADP-00 PM-07 NSC-10 SS-15 RSC-01

CIAE-00 INR-10 NSAE-00 L-03 PRS-01 DODE-00 CIEP-02

SCEM-02 EA-11 TRSE-00 USIA-15 OMB-01 H-03 AID-20 PA-03

COME-00 XMB-07 OPIC-12 FPC-01 RSR-01 /153 W

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P 192218Z JUL 73

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 6386

C O N F I D E N T I A L LIMA 5152

E.O. 11652: GDS

TAGS: ETRN, EAID, ETRD, PE

SUBJ: COFIDE EXPLORING U.S. INTEREST IN FINANCING

OIL PIPELINE

1. AS DEPARTMENT AND OTHER INTERESTED WASHINGTON AGENCIES ARE AWARE, PERU IS PRESENTLY NEGOTIATING WITH JAPAN THE CONSTRUCTION OF \$339.6 MILLION PIPELINE TO TRANSPORT CRUDE FROM JUNGLE REGION TO PORT OF BAYOVAR ON PACIFIC COAST. FEASIBILITY STUDIES WERE CONDUCTED BY BECHTEL INC., AND CHANCES ARE GOOD THAT, WHEN CONSTRUCTION BEGINS, U.S. FIRM WILL BE PRIME CONTRACTOR. (FOR FURTHER DETAILS CONCERNING PROJECT, SEE ITEM VI-15 IN IBRD LIST OF PROJECTS PREPARED FOR RECENT PARIS CG MEETING.)

2. NEGOTIATIONS BETWEEN PETROPERU AND JAPANESE PETROLEUM DEVELOPMENT CORPORATION ARE WELL ADVANCED AND FORMER HAS SIGNED LETTER OF INTENT. HOWEVER, EMBASSY HAS NOW BEEN APPROACHED ON CONFIDENTIAL BASIS BY COFIDE (PERUVIAN STATE DEVELOPMENT CORPORATION WHICH WILL ACTUALLY BE FINANCING THE PROJECT), WHICH HAS INFORMED US THAT GOP IS DISSATISFIED WITH PRESENT JAPANESE OFFER. COFIDE HAS THEREFORE BEEN INSTRUCTED BY MINISTER OF ECONOMY AND FINANCE AND MINISTER OF ENERGY AND MINES

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TO EXPLORE ALTERNATIVE MEANS OF FINANCING, SPECIFICALLY

VIA EXIM BANK.

3. JAPANESE TERMS ARE GENERALLY FOR REPAYMENT IN CRUDE AT 7PERCENT INTEREST. PRICE OF CRUDE WOULD BE BASED 50 PERCENT ON WEST COAST PERU PRICE AND 50 PERCENT ON JAPANESE DOMESTIC MARKET PRICE, WHICH SOMEWHAT LOWER. COFIDE WANTS PRICE TO BE BASED 100 PERCENT ON WEST COAST PERU AND ALSO DESIRES IMPROVED FINANCIAL TERMS, AND WOULD IN GENERAL VISUALIZE SUCH TERMS AS BASIS OF ANY AGREEMENT IT MIGHT REACH WITH OTHER POTENTIAL LENDERS. COFIDE HAS CONSIDERED BANK FINANCING BUT POINTS OUT THAT BEST INTERNATIONAL BANK RATE WOULD PROBABLY BE 1 TO 1 1/2 PERCENT ABOVE LIBO WHICH NOW ABOUT 10 PERCENT. COFIDE WOULD ALSO CONSIDER U.S. PETROLEUM COMPANIES AS SOURCE, BUT IS CONCERNED THAT THEIR INVOLVEMENT COULD RESULT IN DELAY OF PROJECT. COFIDE AND PETROPERU WISH CONSTRUCTION TO BEGIN AS SOON AS POSSIBLE, AIMING AT 1976 COMPLETION DATE. COFIDE POINTS OUT THAT RISK TO LENDER WOULD NOT BE GREAT SINCE, EVEN IF JUNGLE PETROLEUM RESERVES PROVE INADEQUATE, LOAN WOULD BE REPAYED IN DOLLARS (OR, IN CASE OF JAPANESE, IN YEN).

4. COFIDE WISHES TO BE INFORMED ASAP--PREFERABLY WITHIN 24 HOURS--OF DEGREE OF RECEPTIVITY ON PART OF USG TO APPROACH BY GOP WITH RESPECT TO POSSIBLE FINANCING THIS LOAN. IF RESPONSE REASONABLY POSITIVE, COFIDE PREPARED SEND TEAM TO WASHINGTON PROMPTLY FOR FURTHER DISCUSSIONS. EMBASSY REPRESENTATIVES TOLD COFIDE OFFICIALS THEY DOUBTED WASHINGTON COULD REACT WITHIN TIME DESIRED BY COFIDE, PARTICULARLY IN VIEW SIZE AND COMPLEXITY OF PROJECT, BUT THAT EMBASSY WOULD INFORM DEPARTMENT OF COFIDE'S INTEREST AND URGE PROMPT AND POSITIVE RESPONSE.

5. COMMENT: EMBASSY HAD PREVIOUSLY BEEN AWARE OF RUMORS THAT GOP WAS NOT ENTIRELY HAPPY WITH TOUGH JAPANESE BARGAINING POSITION AND WOULD FEEL MORE COMFORTABLE WITH ARRANGEMENT WITH U.S. PETROPERU IS LESS DISENCHANTED WITH JAPANESE OFFER THAN COFIDE; IN FACT COFIDE OFFICIAL COMMENTED THAT IT WAS PLAYING TRADITIONAL ROLE OF COMPANY TREASURER IN RESTRAINING AN OVERLY ENTHUSIASTIC OPERATING DIVISION. NEVERTHELESS, COFIDE HAS APPARENTLY BEEN ABLE
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TO OBTAIN APPROVAL TO GO SHOPPING FOR A BETTER DEAL. IT ALSO POSSIBLE, IN VIEW LAST MINUTE NATURE OF REQUEST, THAT COFIDE MAY MERELY BE SEARCHING FOR MEANS TO PUT PRESSURE ON JAPANESE. ADDITIONALLY, COFIDE OFFICIAL COMMENTED THAT CLIMATE FOR U.S. ASSISTANCE MIGHT NOW BE IMPROVED, AND IT SEEMS EVIDENT THAT APPROACH IS ALSO FISHING EXPEDITION PROMPTED BY RECENT CONGRESSIONAL CRITICISM OF U.S. RETALIATORY LEGISLATION.

6. WHILE EMBASSY WELL AWARE OF DIFFICULTIES, INCLUDING CONSTRAINTS IMPOSED ON EXIM BANK FINANCING AND COMPLEXITIES OF PUTTING TOGETHER APPROPRIATE PACKAGE IN BRIEF TIME AVAILABLE, EMBASSY TOLD COFIDE IT WOULD EXPLORE POSSIBILITIES. WE BELIEVE PROJECT PRESENTS EXCELLENT COMMERCIAL OPPORTUNITY AND WOULD SERVE LONG RANGE U.S. ECONOMIC INTERESTS. OBVIOUS BENEFITS INCLUDE (1) SUBSTANTIAL EXPORT SALES, PERHAPS APPROACHING \$80 MILLION, WHICH WOULD HELP U.S. BALANCE OF PAYMENTS; (2) ASSURED SOURCE OF LOW SULFER CRUDE WHICH WILL OTHERWISE GO TO JAPAN, DESPITE FACT THAT U.S. COMPANIES WILL BE PRIMARILY RESPONSIBLE FOR DRILLING WELLS AND BUILDING PIPELINE; AND (3) STRENGTHENING OF POSITION OF U.S. COMPANIES IN PERUVIAN PETROLEUM CONTEXT. EMBASSY THEREFORE HOPES THAT USG MIGHT BE IN POSITION TO REVERSE EXIM BANK LENDING POLICY TOWARD PERU, PARTICULARLY INsofar AS EXPORT COMPONENT OF PROJECT IS CONCERNED. PIPELINE ALSO APPEARS TO PRESENT OPPORTUNITY FOR MAJOR PROJECTS DIVISION OF DEPARTMENT OF COMMERCE TO FORM CONSORTIUM, PERHAPS INVOLVING POTENTIAL SUPPLIERS, CONTRACTORS, AND U.S. OIL COMPANIES ACTIVE IN EXPLORATION IN PERU. EMBASSY THEREFORE HOPES THAT INTERESTED WASHINGTON AGENCIES WILL BE IN A POSITION TO PROVIDE A PROMPT INDICATION OF GENERAL INTEREST WHICH WILL PERMIT FURTHER, MORE DETAILED DISCUSSIONS TO TAKE PLACE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, PETROLEUM, EXPLORATION, NEGOTIATION, CONSTRUCTION, PETROLEUM PIPELINE, PROJECT
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: worrelsw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LIMA05152
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS BELCHER
Errors: N/A
Film Number: P840114-1773
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730723/aaaaaqyg.tel
Line Count: 142
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: worrelsw
Review Comment: n/a
Review Content Flags:
Review Date: 23 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23-Jan-2002 by martinjw>; APPROVED <26 FEB 2002 by worrelsw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COFIDE EXPLORING U.S. INTEREST IN FINANCING OIL PIPELINE
TAGS: EPET, ETRD, ETRN, EAID, PE, JA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005